

**Testimony of
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Before
U. S. House of Representatives
Subcommittee on Financial Institutions and Consumer Credit
Hearing
2128 Rayburn House Office Building
Hon. Spencer Bachus, Chairman**

“Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream”

**Thursday, June 26, 2003
10 A.M.**

Mr. Chairman, and distinguished Members of this important Subcommittee; I am pleased to appear before you today to offer comments on the topic: **Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream.** I thank you for the invitation and opportunity. You are to be commended for holding hearings on this matter, best known in the financial services area as “Banking the Un-banked”.

I am here representing Citizens Trust Bank; headquartered in Atlanta, Georgia.

I. CTB History:

- Citizens Trust Bank was founded in 1921 and is currently the southeast’s largest African-American owned commercial bank Citizens Trust Bank is the third largest African American owned commercial bank in the nation, with nearly \$400 million in total assets.

- Citizens Trust Bank is a Community Development Financial Institution (CDFI), a designation received from the U.S. Treasury Department by bank’s and other

financial institutions with a primary mission of promoting and meeting community development needs in distressed areas of its market area.

- Recently, Citizens Trust acquired the historic Citizens Federal Savings Bank of Birmingham, AL and currently has 11 branches throughout metropolitan Atlanta and Columbus, Georgia, two branches in Birmingham, and one in Eutaw, Alabama.

II. Economic Trends and Necessity:

- In the context of how the financial services industry currently works, low-income citizens must establish a deposit account as a means to enter the financial mainstream and begin asset accumulation. It is also my contention that economic vitality can flourish in low-income communities - - If significant numbers of the community are able to move forward on asset building tracks. Therefore, access to the financial mainstream for the “un-banked” is more than simply being able to open bank accounts. Indeed, equal access to the financial mainstream is a critical component of local development. Insured depositories should take on providing such access. In general these institutions offer useful services to support an individual asset building program by:
 - Taking direct deposits, providing a safe place for electronic payrolls, government benefit checks and other deposits to be received.
 - Promoting savings by paying interest and often limiting access to funds on deposit.

- Providing account statements to track their savings or checking balances and interest earned.
 - Providing access to regulated loan products, which have minimum standards of customer protection.
 - Providing a means to establish good credit.
 - Encouraging home ownership through mortgage loans.
 - Lowering the costs of basic financial services for customers with qualifying balances.
 - Combining the delivery of financial services with informal customer education on financial planning, including appropriate loans and savings for college, home ownership, home improvement, or retirement.
- The question is: What are the challenges facing most mainstream financial institutions in making such banking services available to the un-banked? As a banker, I would submit the following observations for your consideration:
 1. Such financial institutions do not offer the types of retail services that meet the particular needs of the un-banked because they do not find such transactions cost effective.
 2. Many low-income customers need personal “high-touch” services at odd hours.

3. In addition, many banks and credit unions prefer not to underwrite the small, short-term loans those low-income customers require. Because low-income households barely have sufficient funds to meet their day-to-day needs, many need short-term credit especially when unexpected expenses arise.

4. Profile of an Un-banked Individual:
 1. History of bounced checks
 2. Account closures
 3. Poor financial management
 4. Cash only basis for household
 5. Low to middle income levels

Therefore, the challenge in banks and other financial institutions face in providing banking services to the “un-banked” is that they must build a significant volume of customers with an array of products and level of service that a) meets the immediate financial needs of the un-banked b) builds an strong interest on the part of the un-banked in establishing a deposit account and a healthy credit relationship that promotes asset accumulation, and c) turn a profit.

Many studies by such organizations as the National Community Investment Fund, Fannie Mae, and the Federal Reserve Bank Board, have been conducted to quantify and explain the high proportion of Americans who have no checking and savings accounts in regulated banks and credit union.

The National Community Investment Fund is an independent trust and certified community development financial institution whose mission is to increase the number and capacity of domestic, depository institutions that are both effective agents of local community development and sound financial institutions.

In May, with the support of a grant from the FannieMae Foundation, the NCIF conducted a comprehensive study on the un-banked and published one of the most thorough reports that I have read on the subject. The report is entitled “*A Report on Innovative Products and Services for Low Income and Un-banked Customers*” and was published in May of 2002.

In order to support the products and services described in NCIF’s report, I believe that community banks, those relatively small and locally based financial institutions are best prepared. Going farther, minority-owned financial institutions are even more focused on communities where our low-to-moderate- income fellow citizens live. The fact of the matter is that the initial owners founded these institutions with that notion in mind. They remain in those communities today although most of them were founded more than fifty (50) years ago.

Today, there are 167 minority depository banks in the United States. Of these 49 are Black or African-American; 69 are Asian or Pacific Islander American; 30 are Hispanic-American; 17 are Native American or Alaskan Native American and 2 are Multi-Racial American. These banks are located in 96 cities and 30 states and 2 U. S. territories. In the aggregate, these institutions control some \$93 billion in assets.

However, it should be noted that there are no special charters granted to these banks and they must comply with all the banking laws and regulations governing all banks. While almost all are

profitable and meet minimum capital requirements, they can ill afford to incur the losses attributed to providing normal banking services to the un-banked.

There have been funding initiatives by the federal government such as the Bank Enterprise Award Program of the U. S. Treasury Department and the most recent New Markets Tax Credit Allocation program administered by the same department. However, when applying for such funding, minority-owned banks find themselves competing for the limited resources against much larger majority-owned financial institutions. The result is that many of these smaller minority-owned financial institutions are often overlooked and shut off from the kind of financial support needed to offer normal banking services in disadvantaged communities.

While you invited me here to make comments, I would also like to make the following recommendations for your consideration:

1. Form a true partnership with minority-owned banks in this country to foster the implementation of the innovative products that are described in the NCIF Report. These institutions need to have initiative funds allocated to only those banks. After all, these institutions are already heavily regulated, regularly examined by government agencies and have to meet strict criteria for the maintenance of their respective banking charters.
2. One of the critical problems facing the nation is financial illiteracy. Our children are not being taught the importance of participating in the financial mainstream, even though they attend public school daily. If we must teach science, math and the arts, surely our presence here dictates that we empower our children in financial matters long before they are ready to be “first time homebuyers” or before they become un-bankable.

3. Within this city is the National Bankers Association, which is the seventy year-old trade organization for the nation's minority-owned banks. It represents a convenient access to those banks that have labored long and hard to provide the affordable banking services we all would like to see available to all.

Thank you again and as I stated at the outset, access to the financial mainstream for the “un-banked” is more than simply being able to open bank accounts. Indeed, equal access to the financial mainstream is a critical component of local development.

